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The Director of Central Intelligence

Washington, D.C. 20505

National Intelligence Council

NIC 03988-85
8 August 1985

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

FROM: David B. Low
National Intelligence Officer for Economics

SUBJECT: Economic Policy Council Meeting on US Trade Policy

1. On 7 August I attended an Economic Policy Council Meeting chaired by the President in which the Secretary of the Treasury presented to the President the attached memorandum outlining a revised approach for the Administration to international trade policy.

2. The meeting consisted of a general discussion of the issues and no decisions were made. It is expected, however, that the President will make decisions on the open issues over the next several weeks with a view toward announcing the new approach in early September. There was a general consensus that, in response to the severe protectionist pressures coming from the Hill and the 150 or more trade bills which have been proposed, the Administration needs to initiate an aggressive strategy of articulating US trade policy. This is likely to include a Presidential speech. It is also likely to include an attempt to explain that a campaign against unfair trade practices is not going to cure the trade deficit.



David B. Low

Attachment:
As Stated



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SUBJECT: Economic Policy Meeting on US Trade Policy, 7 August 1985

NIO/Econ(David Low):rr(
Distribution:

8 August 1985

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THE WHITE HOUSE

WASHINGTON

August 6, 1985

MEMORANDUM FOR THE PRESIDENT

FROM: THE ECONOMIC POLICY COUNCIL
SUBJECT: Trade Policy Strategy

To help ensure a more consistent, and effective, trade policy, the Economic Policy Council has been developing trade principles and strategies with which to guide the Administration's trade actions and initiatives. The purpose of this memorandum is to share our progress with you, outlining areas of substantial agreement and pointing out areas that remain to be resolved. We hope to discuss these remaining, unresolved issues with you beginning now and concluding in early September, before Congress returns, so that we can set the parameters of U.S. trade policy.

The trade and economic policy statement outlined below has five major elements: (1) pursuing sound fiscal, monetary, and regulatory policies; (2) ensuring fair trade; (3) promoting U.S. exports; (4) pursuing multilateral and bilateral trade negotiations; and (5) limiting exceptions to free trade.

AGREED UPON PRINCIPLES AND STRATEGIES**Macro-Economic Policies**

1. The U.S. must recognize the adverse impact of excessive government spending and budget deficits, the recent strength of the dollar, and government regulations on the U.S. trade deficit.
2. The Administration is reviewing, and will seek to amend if warranted, anti-trust laws or regulations that impede our international competitiveness.
3. The Administration will consider the trade implications when developing further deregulation initiatives. In some cases, deregulation may increase imports without creating new opportunities for U.S. exports.

Ensure Free Trade

1. The U.S. will vigorously pursue its trade interests under U.S. law, the GATT, and other appropriate international agreements. In addition, the U.S. will take tactical measures (e.g. those taken in the recent pasta/citrus dispute) aimed at eliminating unfair foreign trade practices.

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2. The Administration will continue vigorous enforcement of U.S. antidumping and countervailing duty laws and will see that other countries live up to their trade agreement obligations with the U.S.
3. The Administration will increase efforts to protect intellectual property rights (patents, copyrights, trademarks); we will accelerate work with a view toward possible Administration initiatives in this area.

Promote U.S. Exports

1. The U.S. should seek to redress the trade deficit through increasing exports instead of restricting imports.
2. The Administration will work with private sector advisory groups (e.g., the President's Export Council) to improve export promotion and to help companies look at global markets.
3. The Administration will evaluate Federal export promotion activities during the fall budget review to improve their effectiveness.

Promote Multilateral and Bilateral Trade Negotiations

1. There is a great need for a more comprehensive, more disciplined and more effective system of world trade rules. The system needs fixing.
2. The Administration will maintain efforts to launch a new GATT round based on already agreed-upon U.S. objectives.
3. The Administration will examine possible bilateral and plurilateral negotiating opportunities, both to improve market access and fairer trade and promote wider interest in the multilateral negotiating process.

Limit Exceptions to Free Trade

1. The Administration is committed to market-based solutions to trade problems, at home and abroad, but occasional exceptions, in the form of relief from import competition may be necessary.
2. Import relief, if appropriate, should be temporary, decline over the period of relief, and lead to greater international competitiveness by the industry.
3. The Administration reserves the right to respond to foreign policies and imports that threaten industries essential to our long-term national security.

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4. The Administration will vigorously enforce our export control laws to prevent the leakage of sensitive and critical technology of military significance to potential enemies. At the same time, the Administration recognizes the realities of foreign availability and the dependence of future technical advances on healthy, creative U.S. suppliers and free world exchange of scientific information.

ISSUES OF DISPARATE VIEWS WITHIN THE ADMINISTRATIONMacro-Economic Policy

1. How should the U.S. pursue our policy of encouraging trade partners to adopt appropriate policies designed to accelerate their real economic growth, in order to contribute to a gradual strengthening of their currencies and enhanced U.S. exports? Should the U.S. emphasize removing structural rigidities that impede the market? Should the U.S. promote convergent fiscal and monetary policies and if so, in what forums?
2. Should the U.S. host a high-level meeting of the major industrial countries to review the issues in implementing the findings of the G-10 monetary studies, such as improving the floating exchange rate system, or continue to rely on the Interim Committee as the forum for following up on the G-10 studies?
3. Should the U.S. seek to ease the debt burden of those countries carrying out successful adjustment in accordance with IMF programs, so as to increase their ability to increase imports? What effect would such a policy have on the debtor nations' self-discipline, and would such policies be effective in encouraging imports?

Ensure Fair Trade

1. Should the U.S. Government initiate actions to address foreign unfair trade practices, or continue the current policy of responding only to requests by U.S. industries for actions to counter unfair practices? What criteria should be used in judging what is unfair and whether action should be taken? Should the U.S. Government take such actions immediately or warn other countries that it will take such actions unless they resolve these practices by a certain date?
2. If the U.S. Government initiates actions to address foreign unfair trade practices, should it focus on restricting access to the U.S. market or using

"market-opening" leverage, e.g., threatening free trade agreements with other countries?

3. Should the Administration support market opening legislation that permits or requires the President to close U.S. markets if foreign markets are not opened? Should the U.S. response be limited to reciprocal markets or may it cover a range of markets? How likely are other countries to open their markets if they are faced with the prospects of closed U.S. markets?
4. Should the U.S. establish a deadline for ending the MOSS and yen/dollar talks, expecting such a deadline to serve as a catalyst for Japanese action? Should the MOSS talks include reports setting out specific commitments and follow-up procedures? Should we initiate MOSS talks in new sectors or limit them to the four areas currently under negotiation?
5. Should the U.S. counter proven cases of foreign industrial targeting? What is targeting? Would such countering harm or help the U.S. economy?
6. How aggressively should the Administration match export subsidies by our competitors, while continuing to press for agreements eliminating such subsidies? Should the Administration exceed, match, or only partially counter such subsidies? Should the Administration expand or maintain the current levels of budget resources?

Limit Exceptions to Free Trade

1. Should the U.S. protect industries that are not or cannot be competitive under fair trade conditions? Is national security the only reason for protecting industries that are not competitive, or are there other considerations including employment or the need to provide a transition or adjustment period?
2. Should the Administration modify the dislocated worker program in the Job Training Partnership Act (JTPA) to focus more resources on workers dislocated by imports? While the budget resolution assumes that the Trade Adjustment Assistance program will be extended beyond its September 30 expiration date, should the Administration reconsider its opposition to extension and, if so, how should it propose modifying the program to improve its effectiveness?



James A. Baker III
Chairman Pro Tempore